

# Money and Meaning

By Stephen Goldbart and Joan DiFuria

## Implementation of Effective Family Governance Structures

**W**hat does it take for a wealthy family to develop and maintain family governance that is both effective and sustainable? How can the professional advisor introduce the concept in a manner that engages the family without getting drowned in the mechanics of governance?

Let's begin with a definition: "Governance" is the means of stewarding the multigenerational family organization. It is a voluntary agreement used by the family to implement shared values, with the input and collaboration of stakeholders/family members. Governance establishes the processes whereby:

- strategic goals are set,
- key relationships are maintained,
- the health of the family is safeguarded,
- accountability is maintained and
- achievement and performance are recognized.

More specifically, a family governance structure creates frameworks, policies and traditions that determine how a family will:

- decide where they are going,
- develop responsible family citizenship,
- allocate power,
- determine how decisions are made,
- monitor how well they are doing,
- involve people in decisions,
- report results achieved and
- plan for succession.

Effective governance is more than just the "rules of the road": It transmits a sense of meaning and purpose to all stakeholders and/or family members. At its best, governance enables the family to employ understandable and transparent decision making to handle the opportunities and challenges of wealth. In a multi-generation family, successful implementation of governance fosters the active engagement of family members, with particular attention to the next generation.



CCH

a Wolters Kluwer Business



**Stephen Goldbart, Ph.D., and Joan DiFuria, M.A.**, are Co-Founders and Directors of the Money, Meaning and Choices Institute, which instructs private clients and financial consultants on the psychology of money ([www.mmcinstitute.com](http://www.mmcinstitute.com)). Dr. Goldbart is a licensed clinical psychologist, professor, author and public speaker. Ms. DiFuria completed the Harvard Business School Program for Management Development and has 18 years of international business experience.



The notion of “governance” can overwhelm or turn off some family members. The term conjures up images of corporate or governmental entities, interminable board of directors meetings, and never ending red tape. So introducing governance to a family needs to go far beyond the mechanics of policies and procedures. It is important that governance be introduced and implemented in a “family friendly” manner, aligned with the actual needs of a family, and where the family is in its developmental life cycle. Governance should be the servant, not the master, of the family. If the advisor introduces governance as a way of engaging and empowering family members, there is a much greater likelihood of buy-in and sustainability.

### **Governance Building Blocks**

---

In our experience governance is most effectively built in an evolutionary, organic fashion. While there are many “templates” available in the marketplace to define family governance procedures, we strongly encourage families to create what they need as they grow. This is governance as a developmental process, closely aligned with the mission and core values of each family system. From our experience, it is most important that whatever steps are taken, that they are well understood and accepted by all participating family members.

The key is to start by taking small steps, encouraging the family to learn to work together, and then slowly encouraging greater participation in progressively larger decision-making.

**Develop a mission statement and values platform.** The family needs to start by crafting a family mission statement with operational values clearly articulated. This is usually accomplished by the wealth-holding generation participating in a values retreat to generate a draft document which is then reviewed and added to by the next generation. This process provides a values-driven framework and screening criteria for the development of family governance policies and decisions.

**Composition.** Typically a family will create a family board of directors that is called the “Family Council,” comprised of all bloodline family members who are developmentally ready to participate. Spouses may also be included.

**Decision-making.** Typically in small families decision making is consensual; in larger families it is by majority vote.

**Voting rights.** At the start, the wealth-holders (Mom and Dad, for example) hold the right to vote, or have veto power. Children and spouses are typically given an

“advisory vote.” While the long-term goal is to empower the next generation with real voting rights, most families need a period of grooming and practice to develop the capacity and wisdom of next generation family members. Of course, the wealth-holders also have to be ready to transfer power, over time, by means of voting to others. This often begins in relatively benign areas of family interest such as planning the agenda and location for a family retreat, developing a family legacy project, or participating in decisions about family philanthropy.

### **Development of Family Governance: Example**

---

Consider the Jones family: Mom, Dad, Betsy, a 22-year-old daughter about to graduate college, and Phillip, a 29-year-old son, who has been married for two years and is working as a CPA. In their first family meeting, Betsy and Phil reviewed their parents’ draft values statement, adding some of their own values, such as “we value the use of family wealth to partner with family members in buying their first home, as long as the children have ‘skin in the game.’” In this first meeting, they agreed to form a Family Council, comprised of the parents, the two adult children and one spouse. A decision was made that for two years, the adult children would have advisory voting rights, while the parents maintained veto rights. They also decided, as many of our families do, that each family line would have one vote. As the children had asked for involvement in aspects of the family business, the group considered ways that family members could become involved in family related business projects if: (1) they demonstrated real interest in the business itself, beyond the money, and (2) if they were willing to learn the necessary business skills. The parents also involved their children in vetting family foundation decisions for the year. They discussed what they had done in the past, and what opportunities they were now considering. Based on this discussion, the Family Council members voted on grant-making, which was accepted and implemented by the parents.

### **Governance as Part of a Larger Context**

---

We see the development and maintenance of family governance within the context of an ongoing family meeting process that includes time for family dialogue, connection, fun activities, and educational/enrichment experiences. Ultimately, governance structures and procedures

will be effective and lasting if they foster a spirit of engagement and collaboration among family members of all ages. Whether the meetings take place at the dining room table or at a resort location, having an organized framework and clear

guidelines encourages empowerment, communication, and involvement across the generations. When governance educates, empowers, and fosters constructive dialogue, the family will thrive and family wealth will more likely survive.

This article is reprinted with the publisher's permission from the JOURNAL OF PRACTICAL ESTATE PLANNING, a bi-monthly journal published by CCH, a Wolters Kluwer business. Copying or distribution without the publisher's permission is prohibited. To subscribe to the JOURNAL OF PRACTICAL ESTATE PLANNING or other CCH Journals please call 800-449-8114 or visit [www.CCHGroup.com](http://www.CCHGroup.com). All views expressed in the articles and columns are those of the author and not necessarily those of CCH.



CCH

a Wolters Kluwer business